TONTINE

China Tontine Wines Group Limited

中國通天酒業集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 389

Annual Report 2009

Contents

Financial Highlights

	Year ended 31 December			
	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profitability data				
Revenue	**584,336**	486,708	391,570	281,823
Gross profit	**338,191**	276,939	209,009	141,346
Profit for the year	**174,105**	136,788	105,231	62,178
Basic earnings per share *(RMB) (Note 1)*	**12.7 cents**	10.3 cents	7.9 cents	4.7 cents

	Year ended 31 December			
	2009	2008	2007	2006
Profitability ratios				
Gross profit margin	**57.9%**	56.9%	53.4%	50.2%
Profit margin	**29.8%**	28.1%	26.9%	22.1%
Effective tax rate	**30%**	32%	24%	37%
Return on equity *(Note 2)*	**26.0%**	44.5%	46.5%	34.8%
Operating ratios (as a percentage of turnover)				
Advertising and marketing expenses	**5.3%**	4.5%	10.7%	6.5%
Staff costs	**3.5%**	3.4%	3.0%	3.3%
Research and development	**0.2%**	0.2%	0.3%	0.3%

Notes:

1. The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company divided by the weighted average number of ordinary shares in issue during the relevant period.

2. Return on equity is equal to the profit for the year divided by the average balance of total equity including amount due to a shareholder as at the beginning of each year and as at the end of each year.

Financial Highlights

	As at 31 December			
	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities data				
Non-current assets	**106,399**	109,072	88,955	92,473
Current assets	**961,094**	341,168	191,104	168,316
Current liabilities	**79,515**	71,466	132,755	112,216
Non-current liability	**17,428**	7,572	–	–
Shareholders' equity	**970,550**	371,202	147,304	148,573

	As at 31 December			
	2009	2008	2007	2006
Other key financial ratios and information				
Current ratios *(Note 3)*	**12.1**	4.8	1.4	1.5
Quick ratios *(Note 4)*	**10.2**	2.8	0.5	0.4
Gearing ratio *(Note 5)*	**–**	–	34.2%	23.2%
Net asset value per share *(RMB) (Note 6)*	**0.6**	N/A	N/A	N/A
Inventory turnover days *(days) (Note 7)*	**284**	302	318	348
Trade receivables turnover days *(days) (Note 8)*	**56**	54	51	66
Trade payables turnover days *(days) (Note 9)*	**28**	27	40	57

Notes:

3. Current ratio equals current assets divided by current liabilities as at the end of each year.

4. Quick ratio equals current assets minus inventory, divided by current liabilities as at the end of each year.

5. Gearing ratio equals the debts incurred in the ordinary course of business divided by total assets as at the end of each year.

6. The calculation of net asset value per share for the year ended 31 December 2009 is based on the total number of shares in issue after the Company's listing of its shares on the Main Board of the Stock Exchange of Hong Kong Limited on 19 November 2009 and at the end of the year.

7. Average inventory turnover days are computed by dividing the average of the beginning and closing inventory balance in the respective financial year by cost of sales (excluding consumption tax) and multiplied by 365 days.

8. Average trade receivables turnover days are computed by dividing the average of the beginning and closing trade receivables balance in the respective financial year by revenue and multiplied by 365 days.

9. Average trade payables days are computed by dividing the average of the beginning and closing trade payables balance in the respective financial year by cost of sales (excluding consumption tax) and multiplied by 365 days.

10. The financial data of the Company for the year ended 31 December 2006, 2007 and 2008 and information as to its financial position as at 31 December 2006, 2007 and 2008 are extracted from the Company's prospectus dated 5 November 2009.

Corporate Information

EXECUTIVE DIRECTOR

Mr. Wang Guangyuan
Mr. Zhang Hebin
Ms. Wang Lijuan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sih Wai Kin, Daniel
Mr. Lai Chi Keung, Albert
Mr. Li Changgao

COMPANY SECRETARY

Mr. Sum Chi Kan, *CISA, FCCA*

AUDIT COMMITTEE

Mr. Sih Wai Kin, Daniel *(Chairman)*
Mr. Lai Chi Keung, Albert
Mr. Li Changgao

REMUNERATION COMMITTEE

Mr. Sih Wai Kin, Daniel *(Chairman)*
Mr. Lai Chi Keung, Albert
Mr. Li Changgao

NOMINATION COMMITTEE

Mr. Lai Chi Keung, Albert *(Chairman)*
Mr. Wang Guangyuan
Mr. Li Changgao

AUTHORISED REPRESENTATIVES

Mr. Wang Guangyuan
Mr. Sum Chi Kan

LEGAL ADVISERS

As to Hong Kong law

Chiu & Partners
40th Floor, Jardine House
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Hong Kong

As to Bermuda law

Conyers Dill & Pearman
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2 Church Street
Hamilton HM11
Bermuda

As to PRC law

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20 Chaoyangmenwai Dajie
Beijing 100020
PRC

COMPLIANCE ADVISER

SBI E2-Capital (HK) Limited
Unit A2, 32nd Floor, United Centre
95 Queensway
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Corporate Information

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit No. 3612, 36th Floor
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Hong Kong

HEAD OFFICE IN THE PRC

No. 2199, Tuanjie Road
Tonghua County
Jilin Province
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

BRANCH REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China Tower Branch
1 Garden Road
Hong Kong

Agriculture Bank of China
Tonghua County Branch
No.679 Changzheng Road
Kuaidamao Town, Tonghua County
Jilin Province
PRC

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

COMPANY WEBSITE

http://www.tontine-wines.com
http://www.tontine-wines.com.hk
(effective from 15 April 2010)
(information on the website does not form part of this annual report)

SHARE INFORMATION

Listing date: 19 November 2009
Stock name: Tontine Wines
Number of issued shares
as at 31 December 2009: 1,717,934,000 shares
Board lot: 2,000 shares

STOCK CODE

389

FINANCIAL YEAR-END DATE

31 December

Chairman's Statement

Dear shareholders,

On behalf of the board ("Board") of directors (the "Directors") of China Tontine Wines Group Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2009.

2009 was an extraordinary year for the Group which experienced unprecedented turbulence in the global economic crisis. However, with gradually stabilizing global economic condition, the continuous economic growth in the People's Republic of China ("China" or the "PRC") and the roll-out of the RMB4 trillion economic stimulus packages by the China's central government, the PRC economy showed recovery since the second quarter of 2009. The Group has benefited from this economic recovery and boasting of high-quality products, well-established distribution network, excellent channel management and effective business strategies. As a result, the Group recorded a strong performance in terms of both revenue and profitability.

For the financial year 2009, the Group's revenue was approximately RMB584.3 million, representing an increase of approximately 20.1% as compared with that of the preceding financial year. Profit attributable to shareholders rose by approximately 27.3% to approximately RMB174.1 million as compared with that of the previous financial year. The increase in profit for the year was mainly attributable to the increase in sales volume and the improved gross profit margin of the Group.

Basic earnings per share for the year were RMB12.7 cents (2008: RMB10.3 cents). The Board has recommended to declare, a final dividend of HK2.88 cents per share (equivalent to RMB2.53 cents per share) to share with shareholders the fruits of our rapid development.

2009 is a milestone in the Group's history. Through our hard work in the past, the Group's business continues to grow, resulting in an outstanding operational and financial performance. The shares of the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the " Stock Exchange") on 19 November 2009 (the "Listing") and the Hong Kong Public Offer was significantly over-subscribed. The Listing received strong support from the investors (raised proceeds of approximately HK$491.6 million) and has given the Group a platform to access capital for funding business growth in future.

The Group will continue to exercise prudence in cash management and will use the Listing proceeds in accordance with the plan disclosed in the prospectus of the Company dated 5 November 2009 (the "Prospectus") to maximize shareholders' return.

Looking forward, given the economic stimulating policies and measures to boost domestic demand implemented by the PRC government, we expect a boost in consumption sentiment.

Chairman's Statement

To meet the anticipated increase in market demand for wine products, the Group commenced second-phase capacity expansion from approximately 19,000 tonnes to approximately 39,000 tonnes in 2007. Related construction in Tonghua has been in steady progress and is expected to be completed in the fourth quarter of 2010. With an increased capacity to boost production, the Group will be able to expand its business, achieve better market penetration and attract a broader customer base.

To meet increasing sophisticated consumer tastes, the Group launched Tontine Premium Blueberry wine in January 2010. The new product, which adds to the diverse product portfolio of the Company, were well-received by our customers.

We managed to continue to accelerate our market penetration in second- and third-tier PRC cities through stronger channel management and by stepping up our investments in advertising, marketing and promotion.

Although the business environment worldwide including that of the PRC is full of challenges, armed with superb quality products and supported by a professional marketing team and well-established distribution network, the Group firmly believes it will be able to maintain its competitive advantage.

Being a responsible corporate citizen, the Group has been an active support of and participant in the community activities in Hong Kong and the PRC, contributing resources to the society and charitable organization. The Group donated HK$1 million during the year to the Community Chest of Hong Kong to support its charitable activities.

On behalf of the Board, I would like to express my sincere appreciation to our shareholders, investors, business partners and customers for their continued support. I would also like to thank our senior management team and all staff for their unfailing hard work and brilliant contributions for the past few years.

Wang Guangyuan
Chairman and Executive Director
15 April 2010

Management Discussion and Analysis

OVERVIEW

During the year, the Group's operating environment experienced unprecedented turbulence as a result of the global economic crisis. However, with the continuous economic growth in the PRC and the economic stimulus packages put out by the PRC government, the global economic condition has gradually stabilized since the second quarter of the year. As a result, the Group experienced an overall positive growth in its business.

The Group recorded a revenue of approximately RMB584.3 million (2008: RMB486.7 million), representing an increase of approximately 20.1% for the year ended 31 December 2009 and the Group's profit attributable to owners of the Company increased by approximately 27.3% to approximately RMB174.1 million (2008: RMB136.8 million).

The Company's earnings per share reached RMB12.7 cents (2008: RMB10.3 cents) based on the weighted average number of shares in issue during the year.

The improvement in financial results in 2009 was mainly attributable to increase in sales volume and improvement of the gross profit margin.

INITIAL PUBLIC OFFERING

During the year, we devoted our efforts in rowing our business and preparing for the Listing. With the dedication of all our staff, the Group was successfully listed on the Main Board of the Stock Exchange on 19 November 2009. The placing and public offer (the "Share Offer") was well received by institutional and public investors and in particular, the public offer was over subscribed by more than 290 times. Upon the completion of the Share Offer, we issued a total of 393,262,000 new Shares, including the shares issued upon the exercise of the over-allotment option. The gross proceeds raised from the Share Offer amounted to approximately HK$491.6 million (equivalent to approximately RMB432.6 million). The satisfactory results of the Share Offer reflected the confidence of investors in the prospects of our business as well as in the grape wine industry of the PRC. The Listing is a milestone in the Group's development, laying the foundation of our further growth in the industry.

USE OF PROCEEDS

As disclosed in the Prospectus, we intend to use the net proceeds (after taken into consideration the exercise of over-allotment option) from the Share Offer of approximately HK$438.9 million (equivalent to approximately RMB386.2 million) as follows:

	HK$ million
Expansion of production facilities	113.6
Development of wine estate	68.2
Development of wine cellar	45.5
Developing and increasing awareness of our brand	105.2
Expansion of distribution network	52.6
Working capital and other general corporate purposes	53.8
Total	438.9

Management Discussion and Analysis

As at 31 December 2009, the net proceeds raised from the Share Offer were not utilised and were placed as short term bank deposits in Hong Kong and in the PRC. We intend to apply the proceeds in same manner as we disclosed in the Prospectus.

BUSINESS REVIEW

Sales and distribution network

The Group sells substantially all of our products to distributors, who distribute and sell our grape wine to third-party retailers, including supermarkets, and speciality stores selling tobacco and alcohol, food and beverage outlets such as restaurants, and hotel restaurants, as well as through their own direct sales distribution to end-consumers and other sub-distributors.

As at 31 December 2009, the Group's products were sold through 71 distributors in 19 provinces and 3 municipal cities in the PRC. All distributors are independent third parties and generally engaged in the business of distributing and selling of grape wine products.

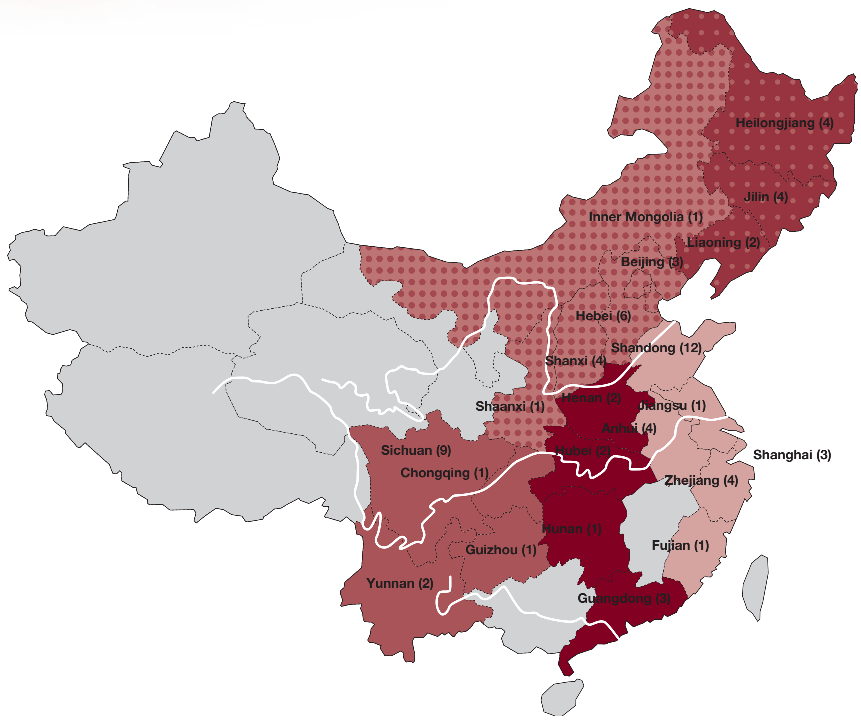
Generally, the Group selects distributors to distribute grape wines products within a designated geographical area and such selections are based on factors such as economic strength, sales network in the Group's target market, product knowledge, mutual goodwill and common objectives, good track record and successful experience in consumption goods distribution, and high moral integrity, credibility and social standing.

The Group enters into a standard distribution agreement with each of our selected distributors for a period of one year and following successful negotiation between the parties upon the expiry of the existing distribution agreements, the Group will renew such agreements with distributors each year. In order to facilitate and assist the marketing and the sales of distributors, the Group bears the delivery costs and implement advertising strategies primarily through television commercial, billboards, magazines to emphasize the health benefits of moderate consumption of grape wines in order to establish consumer loyalty and strengthen the popularity of our products.

The Group does not have any ownership or management control over the distribution network. In order to supervise these distributors, the Group assigns sales managers to work closely with the distributors in order to monitor their performance and obtain market feedback on the Group's products. In addition, the Group conducts annual appraisals on the distributors to determine whether the Group will renew the distribution agreements with them, taking into consideration their sales network, promotion approach, creditability and inventory accumulation.

Management Discussion and Analysis

The following map illustrates the Group's distribution network in the PRC as at 31 December 2009:



Notes:

1. : North-east region of China includes Liaoning Province, Jilin Province and Heilongjiang Province.

2. : Northern region of China includes Hebei Province, Shaanxi Province, Inner Mongolia, Shanxi Province and Beijing.

3. : Eastern region of China includes Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Shandong Province and Shanghai.

4. : South-central region of China includes Henan Province, Hubei Province, Hunan Province and Guangdong Province.

5. : South-west region of China includes Sichuan Province, Yunnan Province, Guizhou Province and Chongqing.

6. The number of distributors of our products in each province or municipality is set next to the name of the relevant province or municipality.

Management Discussion and Analysis

The following table sets forth a breakdown of our revenue by sales region for the year:

	2009		2008	
	RMB'000	%	*RMB'000*	%
North-East[1] (Refer to Note 1 above)	**87,349**	**14.9%**	76,479	15.7%
Northern (Refer to Note 2 above)	**112,179**	**19.2%**	89,535	18.4%
Eastern (Refer to Note 3 above)	**186,908**	**32.0%**	166,945	34.3%
South-Central (Refer to Note 4 above)	**74,624**	**12.8%**	58,544	12.0%
South-West (Refer to Note 5 above)	**123,276**	**21.1%**	95,205	19.6%
Total	**584,336**	**100.0%**	486,708	100.0%

The geographical distribution of our sales remained relatively stable. Revenue derived from our sales in the eastern region of China made the largest contribution to our total revenue. The eastern region of China is our largest market with the highest number of distributors, as it is a comparatively more affluent region in the PRC with relatively high levels of per capita income, where consumers have a general preference towards wine products over other alcoholic beverages. The south-west and northern regions of China are also our significant markets, where some of our key distributors are located.

The Group will continue to expand and optimize its distribution network by working closely with the Group's distributors and leveraging their local resources and business networks.

Supply of grapes

Production of quality grape wine products is highly dependent upon sufficient supply of quality grapes and grape juice. Currently, we source our supply of grape from 173 local grape farmer suppliers, whose vineyards are located in the regions around Ji' An City, Jilin Province, the PRC at the foothills of Changbai mountain range on the banks of the Yalu river. In order to maintain reliable and stable supplies of quality grapes to meet our needs, we have entered into a 20 years long-term contract with each of our grape farmer suppliers and our vineyard management team supervises the planting, nurturing and harvesting of the grapevines.

Production capacity

Currently, the Group's annual production capacity is 19,000 tonnes. In September 2007, the Group commenced construction of new production facilities. The construction is well in progress. Upon the completion of the new production facilities construction, which is expected to be occurred by the end of 2010, the Group's annual production capacity will be increased to 39,000 tonnes. The enlarged production capacity will enable us to promptly respond to the market demand and expand our market position.

(1) Sales in North-East region include direct sales in Jilin Province.

Management Discussion and Analysis

Business outlook

Looking ahead, the Group remains optimistic about the prospects of the PRC economy and its business with the PRC government putting its weight behind the economy. The Group will continue to improve the revenue and profitability by expanding sales and distributorship networks, especially in second tier cities in the PRC; implement tight cost control measure, stringent quality management and competitive pricing strategy.

Develop Tontine wine estate

The Group plans to develop a wine estate in Ji'An City, Jilin Province, the PRC, to produce premium range of our estate bottle wines from high quality grapes. Wines produced by the wine estate, which will be labelled as "Estate Bottled", will be produced from high quality grapes grown in our self-operated vineyards within our wine estate. Our wine estate, with vineyards covering a total area of approximately 2,000 mu* will be installed with wine production and wine cellaring facilities and is expected to have an annual yield of around 500 tonnes (approximately 600,000 bottles (750 ml)).

Develop Tontine wine cellar

The Group plans to develop wine cellaring capabilities to complement our production facilities in Tonghua County, Jilin Province, the PRC. A wine cellar is a place where a stock of wine is properly stored under a controlled environment to undergo an ageing process to produce a range of winery products. The storage capacity of the wine cellar is designed up to approximately 600,000 bottles (750 ml) could be processed.

Expand and develop distribution network

The Group plans to enhance our current sales and distribution and network throughout the PRC by establishing not less than 20 Tontine retail outlets in certain selected markets in the PRC within the next 4 years. As at the date of this report, the setting up of our branded retail outlets was yet to be launched. We plan to establish 5 outlets (Beijing, Chengda, Shanghai, Shenyang and Wuhan) in 2010. These retail outlets will serve as direct sales and marketing platform for Tontine brands, and provide marketing support to the distributors.

The management believes that the Group is able to remain competitive in the market and explore the market potential further in the forthcoming years.

* 1 mu equals to approximately 667 square metres.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

Revenue represents proceeds from sale of grape wine products. Our revenue increased by approximately 20.1% to approximately RMB584.3 million for the year ended 31 December 2009 from approximately RMB486.7 million in 2008. Our customers mainly comprised of regional distributors in the PRC and we sold our products to our distributors at price ranging from approximately RMB5.9 to RMB115.0 per bottle. The following table set forth a breakdown of the Group's revenue for the year:

The growth in revenue was due to a satisfactory increase in sales volume.

	2009		2008		Growth of
		% of total		% of total	Revenues
	RMB'000	***revenues***	*RMB'000*	*revenues*	*(%)*
Revenue					
Sweet wines	**403,830**	**69.1%**	321,387	66.0%	25.7%
Dry wines	**180,506**	**30.9%**	165,321	34.0%	9.2%
Total	**584,336**	**100.0%**	486,708	100.0%	

Revenue derived from the sales of our sweet wine products is generally higher than that of our dry wine products primarily because of our business strategy in focusing on the promotion of our sweet wine products which have better profit margins.

The following table set forth the number of units sold and the average selling prices of the Group's products for the year:

	2009		2008	
	Total units sold	**Average[1] selling price**	Total units sold	Average[1] selling price
		RMB'000		*RMB'000*
	tonnes	***per tonne***	*tonnes*	*per tonne*
Revenue				
Sweet wines	**12,046**	**33.5**	11,155	28.8
Dry wines	**6,432**	**28.1**	6,000	27.6
Total	**18,478**	**31.6**	17,155	28.4

Management Discussion and Analysis

During the years, we did not adjust the individual selling prices of our products. However, the overall average selling prices of our sweet and dry wine products have increased as a result of a shift in our sales mix towards products with higher gross profit margin, which are generally products with higher selling prices, as we focused on growing their sales.

1 Weighted average selling prices of sweet or dry wine products (as applicable) taken into account the actual sales volume of each wine product.

Cost of sales

	2009		2008	
	RMB'000	**%**	*RMB'000*	%
Raw materials				
– Grapes and grape juice	**112,629**	**45.8%**	93,920	44.8%
– Yeast and other additives	**8,553**	**3.5%**	7,591	3.6%
– Packaging materials	**59,470**	**24.2%**	52,520	25.0%
– Others	**627**	**0.2%**	808	0.4%
Total raw material cost	**181,279**	**73.7%**	154,839	73.8%
Production overheads	**6,432**	**2.6%**	6,259	3.0%
Consumption tax	**58,434**	**23.7%**	48,671	23.2%
Total cost of sales	**246,145**	**100.0%**	209,769	100.0%

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, label, corks and packing boxes. In 2009, the cost of grapes and grape juice were the key component of cost of sales and accounted for approximately 45.8% of the Group's total cost of sales, representing an increase of approximately 1.0% from approximately 44.8% in 2008, contributed by the increase in average cost of grapes and grape juice. During the year, the total cost of packaging materials to revenue was relatively stable as compared with last year.

Production overheads primarily consists of depreciation, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses for production. Production overheads as a percentage of revenue in 2009 remained stable as compared with that of 2008.

Gross profit and gross profit margin

Gross profit is calculated based on the Group's revenue less cost of sales. During the year, the gross profit of the Group increased approximately 22.1% from approximately RMB276.9 million to approximately RMB338.2 million. This was mainly attributable to the increase in the sales volume of our grape wine products, particularly in our products with higher profit margins.

Our average gross profit margin increased approximately 1.0% from approximately 56.9% to approximately 57.9%. This was mainly attributable to the shift in our sales mix towards higher margin products.

Selling and distribution expenses

Selling and distribution expenses mainly comprises advertising and promotional expenses, transportation costs, sales commission paid and miscellaneous expenditures related to our sales and marketing personnel.

During the year, the selling and distribution expenses increased and accounted for approximately 11.6% (2008: 11.0%) of the Group's revenue. The slight increase in selling and distribution expenses was primarily attributable to (i) increase in sales commissions as a result of the higher revenue achieved for the year; (ii) increase in transportation costs which was broadly in line with increase in sales; and (iii) increase in advertising and promotional charges by 41.0% from approximately RMB22.0 million for the financial year 2008 to approximately RMB31.0 million for the financial year 2009.

Administrative expenses

Administrative expenses mainly comprises salaries and welfare benefits paid, directors' fees, product development expenses, insurance premium, other tax expenses, depreciation and amortization expenses and other incidental administrative expenses.

In 2009, administrative expenses represented 2.3% of our revenue. It was increased by approximately 35.7% from approximately RMB9.8 million for the financial year 2008 to approximately RMB13.3 million for the financial year 2009, which was mainly attributable to the non-capitalisable listing expenses, administrative staff salaries and the expenses related to the Hong Kong office that was set up in 2009.

Income tax expenses

Tax represents amounts of PRC enterprise income tax charged at the applicable tax rates in accordance with the relevant law and regulations in the PRC. Pursuant to the PRC enterprise income tax law passed by the Tenth National Prople's Congress on 16 March 2007, the enterprise income tax rate of the subsidiary of the Company incorporated in the PRC had changed to 25% with effect from 1 January 2008. For the year ended 31 December 2009, the effective tax rate of the Group decreased to approximately 30% (2008: 32%), principally due to more marketing expenses being tax deductable. Our effective tax rates were higher than our PRC enterprise income tax rate because commencing from 1 January 2008, the amount of our taxation also included deferred tax calculated at the applicable withholding tax rate of the undistributed earnings of the PRC subsidiary derived on or after 1 January 2008 pursuant to the joint circular of the Ministry of Finance and State Administration of Taxation (Cai Shui 2008 No. 1).

Profit for the year

The profit after tax for the current year increased from approximately RMB136.8 million in 2008 to approximately RMB174.1 million in 2009, representing a growth of approximately 27.3%. This was mainly attributed to a stable gross profit margin and increase in sales volume.

Trade receivables analysis

We grant a credit period of 90 days for our distributors except for newly accepted customers who are required to settle our invoices upfront in cash for the whole or substantially the whole of our initial shipment.

As at 31 December 2009, the trade receivables were approximately RMB98.8 million (2008: RMB81.3 million) and average trade receivables turnover days were approximately 56 days (2008: 54 days). The average trade receivables turnover days slightly increased in 2009 primarily due to our granting of credit periods to customers who started purchasing our products in 2008.

Trade payables analysis

We pay grape farmers cash on delivery for the purchase of grapes. The credit period on purchase of our raw materials other than grapes is 90 days.

As at 31 December 2009, the trade payables were approximately RMB16.2 million and average trade payables turnover days were approximately 28 days (2008: 27 days). The average trade payables turnover days increased primarily due to the increased purchase of raw materials toward the year end in preparation for the expected increase in sales in December 2009 and early 2010.

Inventories analysis

We generally maintain our inventories at certain acceptable level to meet the seasonal, market and other commercial needs.

As at 31 December 2009, the inventories were approximately RMB148.6 million (2008: RMB143.0 million) and average inventory turnover days were approximately 284 days (2008: 302 days). The inventory turnover days for our business is generally higher because we procure all the grapes, being the principal raw material for the production of our grape wine products, required for our production during the harvesting months between September and November for each year which will then be consumed in the course of production until the next harvest of grapes in the following year. The shorter average inventory turnover days during the year was primarily the result of faster sale of products.

Financial management and treasury policy

As at 31 December 2009, except for the net proceeds from the Share Offer, the Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). Accordingly, there is no significant exposure to foreign exchange fluctuation.

The proceeds from the Share Offer that were not already used for the intended purposes have been placed on short term deposits in Hong Kong and in the PRC. The Company also pays dividends in Hong Kong dollars when dividends are declared. The Directors consider that the Group has limited foreign currency exposure because our operations are conducted in the PRC. Sales and purchases are mainly denominated in Renminbi. In view of the minimal foreign currency exchange risk, we would closely monitor the foreign currency movement instead of entering into any foreign exchange hedge arrangement.

The Group will continue to pursue a prudent treasury management policy and is in a strong liquidity position with sufficient cash to cope with daily operations and future development demands for capital.

With the strong cash and bank balances, we are in a net cash position and thus are exposed to minimal financial risk on interest rate fluctuation.

Liquidity and financial resources

Our working capital was healthy and positive for the financial years 2008 and 2009 and we generally financed our operation with internal cash flows generated from operations for the past years.

Our net working capital continued to improve during the year ended 31 December 2009. As at 31 December 2009, we recorded a net current assets position of approximately RMB881.6 million (2008: RMB269.7 million). The improvement was primarily due to (i) an increase in our bank balances and cash by approximately of RMB158.6 million as a result of the improvement in our business performance in 2009; (ii) approximately HK$438.9 million net proceeds raised from the Share Offer.

Management Discussion and Analysis

Employment and remuneration policy

Quality and dedicated staff are our most important assets and are indispensable to our success in the competitive market. As part of our corporate culture, we strive to ensure a strong team spirit among our employees for them to contribute towards our corporate objectives. In achieving the goal, we offer competitive remuneration packages commensurate with the industry level and provide various fringe benefits, including trainings, medical, insurance coverage as well as retirement benefits to the employees in Hong Kong and in the PRC. Employees are encouraged to enroll in external professional and technical seminars, and other training programs and courses to update their technical knowledge and skills, enhance their market awareness and improve their business acumen. The Group reviews its human resources and remuneration policies periodically with reference to local legislations, market conditions, industry practice and assessment of the performance of the Group and individual employees.

As at 31 December 2009, the Group employed a work force of 365 (including Directors) in Hong Kong and in the PRC. The total salaries and related costs (including the Directors' fee) for the year ended 31 December 2009 amounted to approximately RMB20.3 million (2008: RMB16.4 million).

Share option scheme

The Company adopted a share option scheme on 28 October 2009 (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the growth of the Group. Eligible participants of the Share Option Scheme include, without limitation, employees, Directors and any other eligible persons. Up to 31 December 2009, no share option has been granted or agreed to be granted to any eligible participants under the Share Option Scheme.

Capital commitments and charges on assets

The Group made capital expenditure commitments including approximately RMB178.6 million that were authorised but not contracted for and approximately RMB21.4 million contracted but not provided for in the financial statements as at 31 December 2009. These commitment were required mainly to support the Group's production capacity expansion. The funding of such capital commitments will be paid out of the net proceeds of the Share Offer as stated in the Prospectus and cash generated from operating activities.

As at 31 December 2009, none of the Group's assets was pledged (2008: nil).

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wang Guangyuan (王光遠), aged 48, was appointed as our executive Director on 8 September 2008, and is the chairman of our Board and the chief executive officer of our Company. Mr. Wang is one of the founding management team members of Tonghua Tongtian Winery Co., Ltd ("Tonghua Tongtian") since its establishment in 2001. He is responsible for overall business strategy and development and management of our Group. Prior to establishing our Group, from November 1986 to August 2000 he served with Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange, and in September 1995 he was promoted to be a deputy general manager. Mr. Wang is currently a member of the People's Representative of Tonghua City 5th People's Congress (通化縣第五屆人民代表大會代表), the Vice Chairman of Tonghua County Industry and Commerce Association (通化縣工商業聯合會) and Tonghua County Non-government Commerce Chamber (通化縣民間商會), a standing director of Tonghua City Young Entrepreneurs Association (通化縣青年企業家協會常務理事), and a member of the 10th Executive Committee of Jilin Provincial Young Entrepreneurs (吉林省青年聯合會第十屆委員會). Mr. Wang was awarded as the "Outstanding Worker of Tonghua County 1996-2001" (1996-2001年通化縣勞動模範) by People's Government of Tonghua County (通化縣人民政府) in October 2002. He was also conferred the title of "Excellent Sales Manager" (優秀銷售總經理) jointly by China Winery Industry Association Grape Wine Sub-branch (中國釀酒工業協會葡萄酒分會) and China Agriculture Association Grape Sub-branch (中國農學會葡萄分會) in June 2006. He was certified as a senior economist by the Ministry of Finance of the PRC (中華人民共和國財政部) on 29 May 2003. Mr. Wang obtained a bachelor's degree of business management from Jilin University (吉林大學) in July 1993. Mr. Wang is the brother of Ms. Wang Lijuan, an executive Director of our Company.

Mr. Wang is beneficially interested in the entire issued share capital of Up Mount International Limited ("Up Mount"), a 39.33% shareholder of the Company, and is also a director of Up Mount.

Mr. Zhang Hebin (張和彬), aged 49, was appointed as our executive Director on 8 September 2008. He is one of the founding management team members of Tonghua Tongtian since its establishment in 2001. He is responsible for sales, marketing and products promotion of our Group. Prior to joining our Group, from April 1984 to August, 2000 he worked with Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange, and in February 1986 he was promoted to be a district sales manager. He obtained a junior college diploma of economic management from the Party School of Jilin Province Government (吉林省黨委校) and graduated in July 1991.

Mr. Zhang is beneficially interested in the entire issued share capital of Wing Move Group Limited ("Wing Move"), a 7.71% shareholder of the Company, and is also a director of Wing Move.

Ms. Wang Lijuan (王麗娟), aged 52, was appointed as our executive Director on 17 December 2008, and is one of the founding management team members of Tonghua Tongtian since its establishment in 2001. She is responsible for overall administration and human resource matters of our Group. Prior to joining our Group, from December 1985 to August 2000 she worked at the Industry and Commerce Bank of China Tonghua Branch, and in April 1990 she was promoted to be a branch administrative manager. She has been nominated as a member of 8th Tonghua County's People's Political Consultative Conference (通化縣政協委員) in November 2006. She obtained a junior college diploma of accounting from Liaoning University (遼寧大學) in July 1990. Ms. Wang is the sister of Mr. Wang, the chairman of our Board and chief executive officer and an executive Director of our Company.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sih Wai Kin, Daniel (薛偉健), aged 43, was appointed as our independent non-executive Director on 28 October 2009. Mr. Sih has been working in Convoy Financial Services Limited as a consultant, providing independent financial advice, and being responsible for conducting financial analyses and devising wealth management plans since September 2004. Since June 2003, he worked in PC Asia Limited as a finance manager and was responsible for accounting, reporting, financial and treasury management of the company. From August 2002 to May 2003, he worked in ABC Communications (Holdings) Limited, a company currently listed on the Stock Exchange (stock code: 30) as a finance and administration manager and performed such functions as overseeing accounting, reporting and financial management of the company. From June 1994 to May 2000, he worked in the department of assurance and advisory business services of Ernst and Young (Hong Kong) and was promoted as a manager in October 2000 and responsible for conducting statutory audit and handling internal control engagements for companies listed or proposed to seek flotation in Hong Kong. Mr. Sih majored in Finance and Economics at the University of Western Ontario, Canada and graduated with a degree in Bachelor of Arts (administrative and commercial studies) in October 1989. Mr. Sih is licensed under the SFO to carry on Type 4 (advising on securities) regulated activities. He obtained the Mandatory Provident Fund Intermediary Certificate from the Mandatory Provident Fund Schemes Authority in January 2008 and is permitted to advise on securities and insurance policies. He is currently a member of the Professional Insurance Brokers Association.

Mr. Lai Chi Keung, Albert (黎志強), aged 48, was appointed as our independent non-executive Director on 28 October 2009. Mr. Lai has been working as the regional sales manager in Noble Jewelry Ltd., a company principally engaged in the design and manufacturing of jewelry which is listed on the Stock Exchange (stock code: 475) since 2009. Prior to that, he worked in Brilligems Jewellery Company Ltd. since 1995 and has been responsible for strategizing and managing international distribution channels for product lines throughout the US market. Mr. Lai worked in Luen On Jewellery Factory Ltd. as a sales manager from November 1983 to August 1988 and during the period he was promoted and relocated to the overseas subsidiary company Chanco, Inc. in Atlanta, Georgia, the US as an export and sales director from 1988 to 1995.

Mr. Li Changgao (李常高), aged 41, was appointed as our independent non-executive Director on 17 December 2008. He joined Beijing Jun Yong Law Office (北京市君永律師事務所) as a lawyer in October 2008. He worked in Beijing Tian Chi Law Office (北京天馳律師事務所) as a trainee from September 2002 to October 2008 and was qualified to practise as a lawyer since October 2008. From October 1995 to May 2001, he started working in the People's Court of Tonghua County (通化縣人民法院) as a court clerk (書記員) handling secretarial matters for a judge (審判員) and was later promoted as a Judge. From October 1990 to September 1995, he worked in the propaganda department of the Ministry of Justice of Tonghua County (通化縣司法局). Mr. Li graduated from Northeast Forestry University (東北林業大學) with a diploma of social sciences (politics) in July 1990, and from Jilin University (吉林大學) with a diploma of law in June 2001. He passed the national judicial examination held by the Ministry of Justice of the PRC (中華人民共和國司法部) and obtained the certificate of PRC legal professional qualification (中華人民共和國法律職業資格證書) in March 2004.

Directors and Senior Management

SENIOR MANAGEMENT

Ms. Ji Chunhua (紀春花), aged 48, is the chief winemaker of our Company, and is one of the founding management team members of Tonghua Tongtian since its establishment in 2001. She is responsible for product development, production and quality control. Prior to joining our Group, from May 1979 to August 2000 Ms. Ji worked as a technician in Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange and she was promoted as the head of the technical department in August 1988. She has been a member of Tonghua City Wine Jury Panel (通化縣葡萄酒、果酒評委) since March 1988 as well as a member of the 4th National Jury Panel for grape (fruit) wine (第四屆葡萄酒(果酒)國家評委) from 2007 to 2012. Ms. Ji was also a member of Jilin Province Jury Panel for Fruit and Grape Wine (吉林省果、葡萄酒評委) from 1990 to 1993. She has been awarded as "Excellent Wine Maker" (優秀釀酒師) jointly by China Winery Industry Association Grape Wine Sub-branch (中國釀酒工業協會葡萄酒分會) and China Agriculture Association Grape Sub-branch (中國農學會葡萄分會) in June 2006. She was also awarded as the "Most Charming China Wine Angel 2008" (最具魅力中國葡萄酒天使) by Huaxia Wine News (華夏酒報) in June 2008. Ms. Ji attended a training course on quality supervision on wine at Chengdu Technology University (成都科技大學) from January 1991 to March 1991. She graduated from Jilin Television University (吉林廣播電視大學) with a junior college diploma of enterprise management degree in July 1994. Ms. Ji is Mr. Kang Hong's wife.

Mr. Yu Dazhou (于大洲), aged 54, is the vineyard manager and winemaker of our Company and he joined our Group in August 2003. He is responsible for overseeing and managing the vineyards of the local grape farmers whom we have entered into long-term contracts with, in order to ensure optimal quality control throughout the entire growing, nurturing and harvesting stages of grape growing as well as the early production stage of base wine production from freshly harvested grapes. From May 1979 to December 1997, Mr. Yu worked at Ji'An Winery Factory (集安葡萄酒廠), and he was promoted to a deputy general manger in July 1988 and was responsible for technology. Mr. Yu worked in Ji'an Forestry Winery Factory (集安森林葡萄酒廠) from 1997 until it was acquired by our Group in 2003. Mr. Yu was appointed as a member of the 2nd National Jury Panel for Wine (第二屆果酒國家資格評委) since December 1995 for five years by China National Food Industry Association (中國食品工業協會). He graduated from Tianjin Light Industry College (天津輕工業學院) with a junior college diploma of food in July 1991.

Mr. Kang Hong (康虹), aged 51, is a deputy general manager of our Company and is one of the founding management team members of Tonghua Tongtian since its establishment in 2001. He is primarily responsible for overall production and manufacturing processes. Prior to his present appointment, he served for over 20 years from December 1977 to August 2000 in Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange, and was appointed the chief of production department. Mr. Kang graduated from Tonghua Education College (通化師範學院) with a junior college diploma of chemistry degree in July 1986. He obtained his qualification of chemistry engineer from Personnel Bureau of Tonghua City (通化市人事局) in October 1999. Mr. Kang is Ms. Ji Chunhua's husband.

Directors and Senior Management

Mr. Sun Yankun (孫延坤), aged 53, is a deputy general manager of our Company and is one of the founding management team members of Tonghua Tongtian since its establishment in 2001. He is responsible for our procurement and logistics. From December 1978 to August 2000, Mr. Sun served in Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange and in October 1997 he was promoted to a division chief in charge of raw materials and supply procurement. He graduated from Tonghua City No.11 High School (通化市第十一中學) in 1974.

Ms. Pei Zhilan (裴志蘭), aged 59, is the chief accountant of our Company and is one of the founding management team members of Tonghua Tongtian since its establishment in 2001. She is responsible for accounting matters of our Group. Prior to joining our Group, from June 1993 to August 2000, she was the chief accountant in Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange, and she was primarily responsible for corporate accounting matters. Ms. Pei graduated from Jilin Province Economic Management Institute (吉林省經濟管理幹部學院) with a junior college diploma of finance and accounting in April 1992. She was conferred her qualification of mid-level accountant in March 2003.

Mr. Li Jia (李恝), aged 32, is a vice president of our Company. He is primarily responsible for our corporate strategy and business development. Mr. Li joined our Group in October 2007. He has over 5 years of experience in grape wine industry and has held management positions at sales planning and marketing in grape wine products in the PRC market. Mr. Li graduated from Guangdong University of Foreign Studies (廣東外語外貿大學) with a bachelor's degree in English in June 2000 and a bachelor's degree in international trade and economics in June 2001 (double-degree). Subsequently, he studied in France and graduated from the Institute d'Adminis des Entreprises (I.A.E.), Universite de Poitiers (the Institute of Business Administration, University of Poitiers) with a DESS in 2003. Mr. Li obtained the WSET Level 2 intermediate certificate in wines and spirits from a division of Wine & Spirits Education Trust Limited in November 2007 and is accredited as an international bordeaux wine educator by L'Ecole du Vin CIVB (the Bordeaux Wine School) from January 2008 to December 2010.

Ms. Zhao Dan (趙丹), aged 31, is the financial controller of the Tonghua Tongtian. She joined our Group in September 2001 and is responsible for accounting matters of all the Company's subsidiaries in the PRC. Ms. Zhao graduated from Jilin University (吉林大學) with a higher diploma in finance and accounting in July 2000. She was conferred her qualification of mid-level accountant in May 2005.

Mr. Zhang Xuexin (張學鑫), aged 29, is the project manager of the Tonghua Tongtian and personal assistant of chief executive officer. He joined our Group in December 2001 and is responsible for project management of the Group, Mr, Zhang graduated from Jilin University (吉林大學) with a higher diploma in economic in July 2002.

Mr. Kwok Yuen Ying, Riki (郭元英), aged 41, is the chief financial officer of our Group and is responsible for the financial and accounting management of our Group. Prior to joining our Group in September 2007, Mr. Kwok worked as the company secretary and the financial controller for Daqing Petroleum and Chemical Group Limited (大慶石油化工集團有限公司), a company involved in the manufacturing and sales of petroleum refined products which is listed on the Stock Exchange (stock code: 362) from September 2000 to October 2005. Mr. Kwok had over 10 years of experience in auditing, accounting and finance. Mr. Kwok holds a bachelor's degree in commerce from the University of Wollongong in Australia and is also an associate member of the Hong Kong Institute of Certified Public Accountants and Certified Practising Accountant of CPA Australia.

COMPANY SECRETARY

Mr. Sum Chi Kan (岑志勤), aged 38, is the company secretary and deputy head of the control and compliance department of our Company. Mr. Sum is responsible for the company secretarial functions and reviewing and supervising our Group's overall internal control systems and provides advice to the Board and audit committee. Mr. Sum is employed on a full-time basis and he is ordinarily resident in Hong Kong as required under Rule 8.17 of the Listing Rules. Mr. Sum joined our Group in May 2009 and is responsible for overseeing matters related to control and compliance of our Group. Prior to joining our Group, he has worked as internal control and compliance manager in J.V. Fitness Limited, a company involved in operating premium fitness centres across the Asia Pacific region. Mr. Sum had over 10 years of experience in auditing, control and compliance. In 1994, he graduated from the Hong Kong University of Science & Technology with a Bachelor degree in Accounting. In 2007, he graduated from the Hong Kong Polytechnic University with a master degree in corporate governance. He has been an associate member of the Hong Kong Institute of Certified Public Accountants since March 2000 and became a fellow of the Association of Chartered Certified Accountants in June 2004. He was granted the qualification as a Certified Information System Auditor in September 2002 and that as a Certified Fraud Examiner in August 2007.

Directors' Report

The Directors are pleased to present their annual report and the audited financial statements of China Tontine Wines Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2009.

CORPORATE REORGANISATION

The Company was incorporated in the Bermuda on 21 August 2008 as an exempted company with limited liability under the Bermuda Companies Act. Pursuant to a group reorganisation (the "Corporate Reorganisation") to rationalise the structure of the Group in preparation of the listing of the Company's shares (the "Shares") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 28 October 2009.

Details of the Corporate Reorganisation are set out in the paragraph headed "Reorganisation" on Appendix VI to the prospectus of the Company dated 5 November 2009 (the "Prospectus"). The Company's shares were listed on the Main Board of the Stock Exchange on 19 November 2009 (the "Listing Date").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Particulars of the principal activities of the Company's principal subsidiaries are set out in note 33 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the financial year.

RESULTS AND DIVIDEND

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Group at that date are set out in the financial statements on pages 40 to 76.

The Directors recommend, subject to shareholders' approval at the forthcoming annual general meeting (the "AGM"), the payment of a final dividend of HK2.88 cents per share (equivalent to RMB2.53 cents per share) for the year ended 31 December 2009 to those shareholders whose names appear on the register of members of the Company on 3 June 2010. The final dividend is expected to be paid on or no later than 28 June 2010.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlement to, among others, the final dividend for the year ended 31 December 2009, the register of members of the Company will be closed from 1 June 2010 to 3 June 2010 (both dates inclusive) during which period no transfer of Shares will be effected. In order to qualify for the proposed final dividend and to attend and vote at the AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investors Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 31 May 2010.

PROPERTY, PLANT AND EQUIPMENT

During the financial year, the Group spent approximately RMB2.3 million on additions of property, plant and equipment mainly for the expansion and enhancement of its production capability. Details of movements in property, plant and equipment of the Group during the financial year are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the financial year are set out in note 25 to the financial statements and in the consolidated statement of changes in equity respectively.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the financial year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

SHARE OPTION SCHEME

On 28 October 2009, the shareholders of the Company had approved and adopted a share option scheme (the "Share Option Scheme"). Key terms of the Share Option Scheme are summarized below:

(i) The purpose of the Share Option Scheme is to provide an incentive for selected participants to work with commitment towards enhancing the value of the Company and the Shares for the benefit of the shareholders and to retain and attract persons whose contributions are or may be beneficial to the growth and development of the Group.

(ii) Eligible participants of the Share Option Scheme include any employee, non-executive Directors (including independent non-executive Directors), customer or supplier of goods or services to any member of the Group, shareholders of any member of the Group, consultant, adviser, contractor, business partner or service provider.

(iii) The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group shall not in aggregate exceed 10% of the Shares in issue on the Listing Date.

(iv) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group, must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

(v) Unless approved by shareholders in general meeting, the total number of Shares issued and which may fall to be issued upon exercise of all options granted to any eligible participant under the Share Option Scheme and any other share option scheme of the Group in the 12 month period up to and including such further grant must not exceed 1% of the issued share capital of the Company for the time being.

(vi) Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). In addition, any grant to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates, in excess of 0.1% of the Shares in issue or with an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval of the Company in a general meeting.

(vii) The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption of the Share Option Scheme, after which period no further option shall be granted.

(viii) An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the offer of grant of an option.

(ix) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period (which may not expire later than 10 years from the date of the grant) to be determined and notified by the Directors to each grantee.

(x) The subscription price per Share under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of (1) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant; (2) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (3) the nominal value of a Share.

(xi) The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

As at 31 December 2009, no option has been granted under the Share Option Scheme.

RESERVES

Details of movements in the reserves of the Group during the financial year are set out in the consolidated statement of changes in equity.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years is set out on page 2. The summary does not form part of the audited financial statements.

CHARITABLE CONTRIBUTIONS

During the financial year, the Group made charitable contributions totaling HK$1 million.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Wang Guangyuan *(Appointed on 8 October 2009) (Chairman and chief executive officer)*
Mr. Zhang Hebin *(Appointed on 8 October 2009)*
Ms. Wang Lijuan *(Appointed on 8 October 2009)*

Independent Non-Executive Directors:

Mr. Sih Wai Kin, Daniel *(Appointed on 28 October 2009)*
Mr. Lai Chi Keung, Albert *(Appointed on 28 October 2009)*
Mr. Li Changgao *(Appointed on 8 October 2009)*

Subject to the terms of their last re-election or appointment and pursuant to bye-laws 108 and 111 of the Company's bye-laws, the office of all the Directors will end at the AGM. All the Directors, being eligible, will offer themselves for re-election at the AGM. In compliance with Rule 3.10(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Board currently comprises three independent non-executive Directors, representing more than one-third of the Board. The Company has received annual confirmations of independence from Mr. Sih Wai Kin, Daniel, Mr. Lai Chi Keung, Albert and Mr. Li Changgao pursuant to Rule 3.13 of the Listing Rules. As at the date of this report, the Company still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 19 to 23 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has a service contract with the Company for an initial fixed term of three years commencing on 1 November 2009.

Each of our independent non-executive Directors has been appointed by the Company for an initial fixed term of two years commencing on the Listing Date.

None of the Directors proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2009, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:–

Name of Director	Name of Group member/associated corporation	Capacity/Nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of shareholding
Mr. Wang Guangyuan	The Company	Interest of a controlled corporation	675,582,720 Shares (L) *(Note 2)*	39.33%
Mr. Zhang Hebin	The Company	Interest of a controlled corporation	132,467,200 Shares (L) *(Note 3)*	7.71%

Notes:

(1) The Letter "L" denotes the Director's long position in the Shares.

(2) These Shares will be registered in the name of and beneficially owned by Up Mount International Limited ("Up Mount"), a company incorporated in the British Virgin Islands (the "BVI") and whose entire issued share capital is owned by Mr. Wang Guangyuan.

(3) These Shares will be registered in the name of and beneficially owned by Wing Move Group Limited ("Wing Move"), a company incorporated in the BVI and whose entire issued share capital is owned by Mr. Zhang Hebin.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2009, so far as is known to the Directors, the following persons, other than a Director or chief executive of the Company, have an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of issued Shares
Up Mount *(Note 1)*	Beneficial owner	675,582,720	39.33%
Zhang Min 張敏 *(Note 2)*	Interest of spouse	675,582,720	39.33%
Wing Move *(Note 3)*	Beneficial owner	132,467,200	7.71%
Luo Cheng Yan 羅成艷 *(Note 4)*	Interest of spouse	132,467,200	7.71%

Notes:

(1) Up Mount is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Wang Guangyuan, the chairman of the Company and an executive Director.

(2) Zhang Min is the spouse of Mr. Wang Guangyuan and is therefore deemed to be interested in all the Shares held by Mr. Wang Guangyuan (through Up Mount) by virtue of the SFO.

(3) Wing Move is a company incorporated in the BVI, and is solely and beneficially owned by Zhang Hebin, an executive Director.

(4) Luo Cheng Yan is the spouse of Zhang Hebin, an executive Director, and is therefore deemed to be interested in all the Shares held by Zhang Hebin (through Wing Move) by virtue of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its subsidiaries was a party, and in which a Director has a material interest, subsisted at the end of the financial year or at any time during the financial year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the Share Option Scheme disclosed above, at no time during the financial year was the Company or its subsidiaries a party to any arrangements whose objects are, or one of whose objects is, to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RETIREMENT BENEFITS SCHEMES

Other than participating in the People's Republic of China state-managed retirement benefits scheme, the Group has not operated any other retirement benefits schemes for the Group's employees. Details of the Group's retirement benefits schemes during the financial year are set out in note 30 to the financial statements.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACT OF SIGNIFICANCE

Save as disclosed, no contracts of significance in which a Director had a material interest, whether directly or indirectly, subsisted at the end of financial year or at any time during the financial year.

Save as disclosed, no contracts of significance in relation to the business of the Group, to which the Company or any of its subsidiaries was a party and in which a controlling shareholder of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year. Save as disclosed, no contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the financial year or at any time during the financial year.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, no Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers and purchases from the five largest suppliers accounted for around 13.0% and 58.2% of the total sales and purchases of the Group for the financial year, respectively. The Group's largest customer and supplier accounted for around 2.9% and 14.8% of the total sales and purchases of the Group for the financial year, respectively. For the year ended 31 December 2009, none of the Directors or any of their associates or any shareholders of the Company which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers and suppliers.

AUDIT COMMITTEE

The Company established its audit committee (the "Audit Committee") pursuant to a resolution of the Directors passed on 28 October 2009. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Sih Wai Kin, Daniel, Mr. Lai Chi Keung, Albert and Mr. Li Changgao.

The Audit Committee has reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the internal controls, as well as reviewed the Group's audited annual results for the year ended 31 December 2009.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this report, the Company has maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules since the listing of the Shares on the Stock Exchange.

AUDITOR

Deloitte Touche Tohmatsu, the auditor of the Company, will retire at the AGM and, being eligible, offer themselves for re-appointment at the AGM. A resolution for re-appointment of auditor of the Company will be proposed at the AGM.

ON BEHALF OF THE BOARD

Wang Guangyuan
Chairman and Executive Director
Hong Kong
15 April 2010

Corporate Governance Report

The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and comply with the increasing stringent regulatory requirements, and to fulfill its commitment to excel in corporate governance. The Board is committed to maintaining a good standard of corporate governance practices and business ethics in the firm belief that they are essential for maintaining and promoting investors' confidence and maximizing shareholders' returns.

As set out in Appendix 14 of the Listing Rules, "The Code on Corporate Governance Practices" (the "CG Code"), the CG Code sets out two levels of corporate governance practices namely, mandatory code provisions that a listed company must comply with or explain its non-compliance, and recommended best practices that a listed company is encouraged to comply with but need not disclose in the case of non-compliance.

The Company adopted the code provisions set out in the CG Code on 28 October 2009. Since the date of adoption of the CG Code up to 31 December 2009, the Company considered that it had complied with the mandatory code provisions of the CG Code save for the following:

CODE PROVISION A.2.1

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and chief executive officer ("CEO") should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and CEO and Mr. Wang Guangyuan currently performs these two roles. Mr. Wang is responsible for the overall business strategy and development and management of our Group. The Board considers Mr. Wang, the chairman of the Board & CEO of the Company, is able to lead the Board in major business decision making for the Group. Therefore, Mr. Wang assumes the dual roles of being the Chairman of the Board & CEO of the Company notwithstanding the deviation.

BOARD OF DIRECTORS

The Board is responsible for providing effective and responsible leadership for the Group. The Directors, both individually and collectively, must act in good faith in the best interests of the Group and its shareholders. The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on matters such as annual and interim results, major transactions, appointment or re-appointment of directors, and dividend and accounting policies. The profiles of Directors as at the date of this report are set out on pages 19 to 23.

The Board has delegated various responsibilities to certain Board committees including the Audit Committee, the Remuneration Committee and the Nomination Committee (collectively, the "Board Committees").

Our Board comprises 3 executive Directors and 3 independent non-executive Directors. During the short period between 28 October 2009 (date of adoption of the CG Code) up to 31 December 2009 ("period under review"), the Board met three times. The attendance record of each of the Directors during the period under review is tabulated as follows:

Name	Number of meetings attended/held during the period under review	Attendance rate
Executive Director		
Mr. Wang Guangyuan *(Chairman and CEO)*	3/3	100%
Mr. Zhang Hebin	3/3	100%
Ms. Wang Lijuan	3/3	100%
Independent Non-executive Director		
Mr. Sih Wai Kin, Daniel	1/3	33%
Mr. Lai Chi Keung, Albert	1/3	33%
Mr. Li Changgao	3/3	100%

Save for the sibling relationship between Mr. Wang Guangyuan and Ms. Wang Lijuan, the Board members have no financial, business, family or other relationships with each other. Pursuant to paragraph 12B of Appendix 16 to the Listing Rules, each of the independent non-executive Directors has confirmed in writing his independence with regard to the independence criteria set out in Rule 3.13 of the Listing Rules.

After the listing of its shares on the Main Board of the Stock Exchange on 19 November 2009, the Company will adopt the practice of holding board meetings regularly for at least four times a year at approximately quarterly intervals. Ad-hoc meetings will also be convened if necessary to discuss the overall strategy as well as financial performance of the Group. Notice of board meeting will be sent to all Directors at least 14 days prior to a regular board meeting. Reasonable notice will be given to the Directors for ad-hoc board meetings. Directors may participate either in person or through electronic means of communication.

The Company will adopt the practice to provide relevant materials to all Directors relating to the matters brought before the meetings. All the Directors will be provided with sufficient resources to discharge their duties, and, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors will have the opportunity to include matters in the agenda for Board meetings.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 1 November 2009, subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than three months' prior written notice.

Each of independent non-executive Directors has entered into a service contract with the Company for an initial term of two years commencing from the Listing Date, subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than one month's prior written notice.

In accordance with the Company's bye-laws, each year, one-third of the Directors (including executive Directors and independent non-executive Directors) for the time being will retire from office by rotation provided that every Directors shall be subject to retirement by rotation at least once every three years at the general meeting of the Company.

BOARD COMMITTEES

As an integral part of good corporate governance practices, the Board established the Board Committees to oversee particular aspects of the Group's affairs. The Board Committees are governed by the respective written terms of reference approved by the Board.

Audit Committee

Pursuant to a resolution of the Directors passed on 28 October 2009, the Audit Committee was established with written terms of reference in compliance with the CG Code. The Audit Committee comprises three members, all are independent non-executive Directors, namely. Mr. Sih Wai Kin, Daniel, Lai Chi Keung, Albert and Mr. Li Changgao. Mr. Sih Wai Kin, Daniel is the chairman of the Audit Committee.

The Audit Committee is primarily responsible for the review and supervision of the financial reporting process and assessing the adequacy and effectiveness of the internal control system. It is also responsible for making recommendation to the Board on the appointment and removal of external auditor. It has reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the internal controls, as well as reviewed the Group's audited annual results for the year ended 31 December 2009.

The terms of reference of the Audit Committee are in compliance with the guidelines set out by Hong Kong Institute of Certified Public Accountants and have been updated on terms no less exacting than that set out in the CG Code.

Since the Audit Committee was only established on 28 October 2009 and listing of the Company's shares on the Main Board of the Stock Exchange took place on 19 November 2009, the Audit Committee did not hold any meeting during the year under review. The Audit Committee will adopt the practice of holding committee meetings regularly after the year under review. Ad-hoc meetings will also be convened if necessary.

Remuneration Committee

Pursuant to a resolution of the Directors passed on 28 October 2009, the Remuneration Committee was established with written terms of reference in compliance with the CG Code. The Remuneration Committee comprises three members, all are independent non-executive Directors, namely Mr. Sih Wai Kin, Daniel, Lai Chi Keung, Albert and Mr. Li Changgao. Mr. Sih Wai Kin, Daniel is the chairman of the Remuneration Committee.

The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; review performance based remuneration; ensure none of our Directors determine their own remuneration.

Since the Remuneration Committee was only established on 28 October 2009 and listing of the Company's shares on the Main Board of the Stock Exchange took place on 19 November 2009, the Remuneration Committee did not hold any meeting during the year under review. The Remuneration Committee will adopt the practice of holding committee meetings regularly after the year under review. Ad-hoc meetings will also be convened if necessary.

Nomination Committee

Pursuant to a resolution of the Directors passed on 28 October 2009, the Nomination Committee was established with written terms of reference in compliance with the CG Code. The Nomination Committee comprises three members, comprising Mr. Lai Chi Keung, Albert, Mr. Wang Guangyuan and Mr. Li Changgao. The chairman of the Nomination Committee is Mr. Lai Chi Keung, Albert.

The primary functions of the Nomination Committee are to make recommendations to the Board regarding candidates for directorship, either to fill vacancies on or appoint additional directors to the Board. In considering the nomination of new Directors, the Nomination Committee will take into account the qualification, ability, work experience, leadership and professional ethics of the candidates.

Since the Nomination Committee was only established on 28 October 2009 and listing of the Company's shares on the Main Board of the Stock Exchange took place on 19 November 2009, the Nomination Committee did not hold any meeting during the year under review. The Nomination Committee will adopt the practice of holding committee meetings regularly after the year under review. Ad-hoc meetings will also be convened if necessary.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining good and effective internal controls of the Group. During the financial year, the Board has conducted a review of the effectiveness of the Group's system of internal control, covering financial, operational, compliance control and risk management functions through a third party consultant firm. The Group's system of internal control includes the setting up of a management structure with limits of authority, and is designed to help the Group achieve its business objectives, protects its assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate all risks of failure in the Group's operational systems and in the achievement of the Group's business objectives. After reviewing the Group's internal control system, the Board considers that the internal control system is effective and adequate for the Group as a whole. The Board further considers that (i) there was no material issue relating to the internal controls, including financial, operational and compliance controls and risk management functions of the Group; and (ii) that there were adequate staff with appropriate and adequate qualifications and experience, resources for accounting and financial reporting function, and adequate training programmes have been provided during the financial year. The control and compliance department of the Company plays a major role in monitoring the internal controls of the Group and reports directly to the Audit Committee. It has full access to review all aspects of the Group's activities and internal controls. All types of audited reports are circulated to the Audit Committee and key management which will follow up the corrective actions to the recommendations by the control and compliance department.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the financial year, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate accounting standards which are pertinent to its operations and relevant to the financial statements, made judgments and estimates that are prudent and reasonable, and have prepared the accounts on a going concern basis. The statement of the auditor of the Company, Messrs. Deloitte Touche Tohamstu, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 38 to 39.

AUDITOR'S REMUNERATION

During the financial year, the fees paid/payable to the auditor in respect of audit and non-audit services provided by the auditor of the Group were as follows:

	RMB'000
Audit Services	**1,408**
Reporting accountants in relation to the Listing	**6,589**
Non-audit services	**–**
	7,987

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code for directors' securities transactions (the "Model Code"). The Company has made specific enquiry of all Directors and that all the Directors have confirmed their compliance with the required standards set out in the Model Code regarding directors' securities transactions throughout the financial year ended 31 December 2009.

INVESTOR RELATIONS AND SHAREHOLDERS' COMMUNICATIONS

The Company endeavours to maintain a high level of transparency in communication with shareholders and investors in general. The various channels via which the Company communicates with its shareholders include interim and annual reports, circulars, notices, financial reports, information on the Stock Exchange's and the Company's website, and general meetings.

Shareholders are encouraged to attend the Company's general meetings where the Chairman and the executive Directors of the Board are available to answer questions. Notice of the annual general meeting of the Company and related papers are sent to shareholders of the Company at least 20 business days before the meeting and such notice is also made available on the Stock Exchange's website. Separate resolutions are proposed at the general meetings on each substantially separate issue. Poll results of the meeting will be posted on the website of the Stock Exchange on the day of the meeting. The financial and other information relating to the Group is disclosed on the Company's website, http://www.tontine-wines.com.hk.

In order to facilitate the communication with shareholders of the Company, the Group has maintained the Company's website as a channel to provide the latest information and to strengthen communication with its shareholder and the investing public. The Group's corporate correspondence and information will also be published on the website in a timely manner.

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF CHINA TONTINE WINES GROUP LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Tontine Wines Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 76, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15 April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	**2009** **RMB'000**	2008 RMB'000
Revenue	*7*	**584,336**	486,708
Cost of sales		**(246,145)**	(209,769)
Gross profit		**338,191**	276,939
Other income	*9*	**1,681**	244
Selling and distribution expenses		**(67,912)**	(53,500)
Administrative expenses		**(13,267)**	(9,761)
Other expenses	*10*	**(9,028)**	(13,012)
Profit before tax		**249,665**	200,910
Income tax expense	*11*	**(75,560)**	(64,122)
Profit and total comprehensive income for the year attributable to owners of the Company	*12*	**174,105**	136,788
Earnings per share	*16*		
Basic *(RMB)*		**12.7 cents**	10.3 cents

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current Assets			
Property, plant and equipment	*17*	**102,550**	105,131
Prepaid lease payments	*18*	**3,849**	3,941
		106,399	109,072
Current Assets			
Inventories	*19*	**148,604**	142,993
Trade receivables	*20*	**98,776**	81,292
Deposits and prepayments		**291**	975
Prepaid lease payments	*18*	**92**	92
Bank balances and cash	*21*	**713,331**	115,816
		961,094	341,168
Current Liabilities			
Trade payables	*22*	**16,154**	12,933
Other payables and accruals	*23*	**38,813**	35,358
Tax liabilities		**24,548**	23,175
		79,515	71,466
Net Current Assets		**881,579**	269,702
Total Assets Less Current Liabilities		**987,978**	378,774
Non-current Liability			
Deferred tax liability	*24*	**17,428**	7,572
		970,550	371,202
Capital and Reserves			
Share capital	*25*	**15,118**	758
Reserves		**955,432**	370,444
Total Equity		**970,550**	371,202

The consolidated financial statements on pages 40 to 76 were approved and authorised for issue by the Board of Directors on 15 April 2010 and are signed on its behalf by:

Wang Guangyuan
Chairman and Executive Director

Zhang Hebin
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital *RMB'000*	Share premium *RMB'000*	Special reserve *RMB'000* *(Note a)*	Statutory reserves *RMB'000* *(Note b)*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2008	415	–	–	30,735	116,154	147,304
Total comprehensive income for the year	–	–	–	–	136,788	136,788
Issue of shares by the then holding company *(Note c)*	343	86,767	–	–	–	87,110
Transfer to statutory reserves	–	–	–	15,447	(15,447)	–
At 31 December 2008	758	86,767	–	46,182	237,495	371,202
Total comprehensive income for the year	–	–	–	–	174,105	174,105
Exchange of shares upon group reorganisation	407	(86,767)	86,360	–	–	–
Issues of shares pursuant to initial public offering	3,462	429,128	–	–	–	432,590
Expenses incurred in connection with issue of new shares	–	(7,347)	–	–	–	(7,347)
Issue of share by capitalisation of share premium account	10,491	(10,491)	–	–	–	–
Transfer to statutory reserves	–	–	–	20,106	(20,106)	–
At 31 December 2009	15,118	411,290	86,360	66,288	391,494	970,550

Notes:

(a) Special reserve represents the difference between the nominal value of the shares of the Company issued and the aggregate of the nominal value of the issued shares and the share premium of the then holding company for which the shares of the Company have been issued in exchange upon the Corporate Reorganisation (see note 1) to rationalise the Group structure prior to listing of the Company's share on The Stock Exchange of Hong Kong Limited.

(b) In accordance with the relevant laws and regulations of the People's Republic of China ("PRC"), the PRC subsidiary is required to provide for PRC statutory reserves, including enterprise expansion fund and general reserve fund, by way of appropriations from its statutory net profit (based on the subsidiary's PRC statutory financial statements) but before dividend distributions.

All appropriations to the funds are made at the discretion of the subsidiary's board of directors. The board of directors shall decide on the amounts to be appropriated based on the profitability of each subsidiary each year.

The enterprise expansion fund may be used to increase registered capital of the PRC subsidiary subject to approval from the relevant PRC authorities. The general reserves fund may be used to offset accumulated losses or increase the registered capital of the subsidiary subject to approval from the relevant PRC authorities.

(c) Pursuant to written resolutions of the board of directors of Fullest Power Investments Limited ("Fullest Power"), the then holding company, passed on 28 November 2008, the amount due to a shareholder of RMB87,110,000 was capitalised by the allotment of an aggregate of 50,000 shares of US$1 each in Fullest Power to the existing shareholders in proportion to their shareholding.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**249,665**	200,910
Adjustments for:		
Interest income	**(1,313)**	(244)
Depreciation of property, plant and equipment	**4,892**	4,791
Amortisation of prepaid lease payments	**92**	92
Operating cash flows before movements in working capital	**253,336**	205,549
Increase in inventories	**(5,611)**	(19,494)
Increase in trade receivables	**(17,484)**	(17,724)
Decrease (increase) in deposits and prepayments	**684**	(14)
Increase in trade payables	**3,221**	1,710
Increase in other payables and accruals	**3,455**	9,553
Cash generated from operations	**237,601**	179,580
Income tax paid	**(64,331)**	(33,375)
NET CASH FROM OPERATING ACTIVITIES	**173,270**	146,205
INVESTING ACTIVITIES		
Interest received	**1,313**	244
Purchase of property, plant and equipment	**(2,311)**	(25,000)
NET CASH USED IN INVESTING ACTIVITIES	**(998)**	(24,756)
FINANCING ACTIVITIES		
Proceeds from issue of new shares	**432,590**	–
Expenses paid in connection with the issue of new shares	**(7,347)**	–
Repayment of advances from a shareholder	**–**	(8,617)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**425,243**	(8,617)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**597,515**	112,832
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**115,816**	2,984
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash	**713,331**	115,816

1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company was incorporated in Bermuda as an exempted company with limited liability on 21 August 2008 and its shares have been listed on The Stock Exchange of Hong Kong Limited with effect from 19 November 2009. The Company changed its name from China Wines Group Limited to China Tontine Wines Group Limited with effect from 3 July 2009. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

Pursuant to a corporate reorganisation (the "Corporate Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on 28 October 2009 by issuing shares of the Company in exchange for the entire issued share capital of Fullest Power Investments Limited ("Fullest Power"), the then holding company. Details of the Corporate Reorganisation were set out in the section headed "Reorganisation" in Appendix VI to the prospectus of the Company dated 5 November 2009. The Corporate Reorganisation is a reorganisation of companies under common control. Accordingly, the Group resulting from the Corporate Reorganisation including the Company and its subsidiaries is regarded as a continuing entity.

The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows are prepared using the principles of merger accounting as if the group structure immediately after the Corporate Reorganisation had been in existence throughout the two years ended 31 December 2009, or since the respective dates of incorporation/establishment of the relevant entity, where there is a shorter period. The consolidated statement of financial position as at 31 December 2008 presents the assets and liabilities of the companies comprising the Group which had been incorporated/established as at 31 December 2008 as if the group structure immediately after the Corporate Reorganisation had been in existence on 31 December 2008.

The Company was dormant since its incorporation until the date of the Corporate Reorganisation. Thereafter it acts as an investment holding company. The activities of its subsidiaries are set out in note 33.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

The Group has not early adopted the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised 2009)	Related Party Disclosures[3]
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[5]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised 2008)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2011.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 January 2010.
6 Effective for annual periods beginning on or after 1 July 2010.
7 Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The directors of the Company anticipate that the adoption of the other new or revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business and net of discounts.

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment

Property, plant and equipment including the buildings held for use in the production of goods or for administrative purposes (other than construction in progress) are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the tangible asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Retirement benefit costs

The employees of the Group's subsidiary which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The PRC subsidiary is required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets

The Group's financial assets are all classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets that are assessed not to be impaired individually, such as trade receivables, are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

An impairment loss is recognised in profit or loss where there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade payables and other payables) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged or cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Research and development expenditure

Expenditure on research activities is recognised as expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any).

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, the management has made various estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on past experience, expectations of the future and other information that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimate useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period.

Estimation allowances for inventories

The management estimates the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at end of the reporting period and makes allowance on obsolete and slow moving items to write off or write down inventories to their net realisable values. Where the expectation on the net realisable value is lower than the cost, an impairment may arise. The carrying amount of inventories is RMB148,604,000 (2008: RMB142,993,000).

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of trade receivables is RMB98,776,000 (2008: RMB81,292,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists the equity attributable to owners of the Company, comprising share capital, reserves and retained profits.

The management of the Group reviews the capital structure periodically. The Group considers the cost of capital and risks associated with the capital, and will balance its overall capital structure through payment of dividends, issuance of new shares as well as the raising of new debts, if required.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2009	2008
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalent)	**811,956**	197,108
Financial liabilities		
Amortised cost	**26,699**	18,102

b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, bank balances and cash, trade payables and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include currency risk, interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Currency risk

Certain transactions of the Group are denominated in Hong Kong Dollar ("HKD") which are different from the functional currency of the Group entities, i.e. RMB, and therefore the Group is exposed to currency risk. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its foreign currency risk by monitoring the movement of the foreign currency rate and will consider hedging significant foreign currency exposure should the need arise. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
HKD	**297,674**	–	**4,889**	–

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase in RMB against HKD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for 5% change in foreign currency rate. A negative number below indicates a decrease in profit where RMB strengthen 5% against HKD. For a 5% weakening of RMB against HKD, there would be an equal and opposite impact on the profit for the year.

	Profit or loss	
	2009	2008
	RMB'000	*RMB'000*
HKD	**(14,639)**	–

In management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as the year end exposure does not reflect the exposure during the year.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits. The Group considered interest rate risk on deposits is insignificant.

Credit risk

As at 31 December 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The management considers the credit risk exposure of the Group is low as the sales are normally settled within 90 days. The management nonetheless reviews the recoverable amount of each individual debt regularly, if any, to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

The Group's liquidity position is monitored closely by the management of the Group. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Liquidity risk – continued

The following table details the Group's contractual maturity for its financial liabilities. The table has been draw up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Repayable on demand	3 months or less	Total undiscounted cash flows and carrying amounts
	RMB'000	*RMB'000*	*RMB'000*
2009			
Trade payables	–	16,154	16,154
Other payables	10,545	–	10,545
	10,545	16,154	26,699
2008			
Trade payables	–	12,933	12,933
Other payables	5,169	–	5,169
	5,169	12,933	18,102

c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as inputs.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. REVENUE

Revenue represents the net amounts received and receivable for goods sold less returns and discounts.

8. SEGMENT INFORMATION

The Group determines its operating segments based on internal reports about components of the Group that regularly reviewed by the chief operating decision maker (i.e. the board of directors) of the Company in order to allocate the resources to the segment and to assess its performance.

The Group is principally engaged in the business of manufacturing and sales of grape wine products.

The Group's operating segments under HKFRS 8 are identified based on different geographical zones in the PRC: North-East Region, Northern Region, Eastern Region, South-Central Region and South-West Region.

- North-East Region refers to north-east region of PRC and includes the provinces of Liaoning, Jilin, and Heilongjiang.

- Northern Region refers to the northern region of PRC and includes provinces of Hebei, Shaanxi, Inner Mongolia, Shanxi and city of Beijing.

- Eastern Region refers to the eastern region of PRC and includes provinces of Jiangsu, Zhejiang, Anhui, Fujian, Shandong and city of Shanghai.

- South-Central Region refers to the south-central region of PRC and includes provinces of Henan, Hubei, Hunan and Guangdong.

- South-West Region refers to the south-west region of PRC and includes provinces of Sichuan, Yunnan and Guizhou and city of Chongqing.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

No revenue from transactions with a single external customer amounted to 10 per cent or more of the Group's revenue.

8. SEGMENT INFORMATION – continued

Information about operating segment revenues, profit, assets and liabilities

	North-East Region *RMB'000*	Northern Region *RMB'000*	Eastern Region *RMB'000*	South-Central Region *RMB'000*	South-West Region *RMB'000*	Total *RMB'000*
For the year ended 31 December 2009						
Segment revenue from external customers	87,349	112,179	186,908	74,624	123,276	584,336
Segment profit	47,482	58,806	95,651	37,811	61,604	301,354
For the year ended 31 December 2008						
Segment revenue from external customers	76,479	89,535	166,945	58,544	95,205	486,708
Segment profit	41,275	46,256	83,734	28,795	45,393	245,453
As at 31 December 2009						
Segment assets	13,871	18,902	28,726	14,931	22,346	98,776
Segment liabilities	3,878	4,980	8,297	5,473	3,313	25,941
As at 31 December 2008						
Segment assets	9,183	8,351	30,147	11,191	22,420	81,292
Segment liabilities	3,601	4,162	7,746	4,454	2,686	22,649

8. SEGMENT INFORMATION – continued

Reconciliations of operating segment revenue, profit, assets and liabilities

Revenue

No reconciliation of operating segment revenues is provided as the total revenues for operating segments is the same as Group's revenue.

	2009	2008
	RMB'000	*RMB'000*
Profit		
Total segment profits	**301,354**	245,453
Unallocated amounts:		
Other corporate income	**1,681**	244
Other corporate expenses	**(53,370)**	(44,787)
Consolidated profit before tax	**249,665**	200,910

Segment profit represented the profit earned by each segment without allocation of depreciation, selling expense and other corporate expenses.

	2009	2008
	RMB'000	*RMB'000*
Assets		
Total segment assets	**98,776**	81,292
Other unallocated amounts:		
Property, plant and equipment	**102,550**	105,131
Prepaid lease payments	**3,941**	4,033
Inventories	**148,604**	142,993
Bank balances and cash	**713,331**	115,816
Deposits and prepayments	**291**	975
Consolidated total assets	**1,067,493**	450,240

8. SEGMENT INFORMATION – continued

Reconciliations of operating segment revenue, profit, assets and liabilities – continued

Revenue - continued

Operating segment assets exclude property, plant and equipment, prepaid lease payments, inventories, deposits and prepayments and bank balances and cash which are commonly used for all segments.

	2009	2008
	RMB'000	*RMB'000*
Liabilities		
Total segment liabilities	**25,941**	22,649
Other unallocated amounts:		
Trade payables	**16,154**	12,933
Tax liabilities	**24,548**	23,175
Deferred tax liability	**17,428**	7,572
Other payables and accruals	**12,872**	12,709
Consolidated total liabilities	**96,943**	79,038

Operating segment liabilities exclude trade payables, tax liabilities, deferred tax liability and other payables and accruals which cannot be allocated to the segments on a reasonable basis.

9. OTHER INCOME

	2009	2008
	RMB'000	*RMB'000*
Interest income from bank deposits	**1,313**	244
Sponsorship income from legal and professional parties related to the listing of shares	**368**	–
	1,681	244

10. OTHER EXPENSES

The amount represents professional fees and other expenses related to the listing of shares of the Company. Pursuant to HKAS32 Financial Instruments: Presentation, the transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are directly attributable to the issuing of new shares. The remaining costs incurred in relation to the concurrent offering of new shares and listing of other shares are recognised as an expense when incurred.

11. INCOME TAX EXPENSE

	2009	2008
	RMB'000	*RMB'000*
The charge comprises:		
Current tax		
PRC Enterprise Income tax	**65,704**	56,550
Deferred tax *(note 24)*		
Current year	**9,856**	7,572
	75,560	64,122

Provision for the PRC Enterprise Income Tax was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws applicable to the subsidiary operated in the PRC.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards.

According to a joint circular of the Ministry of Finance and State Administration of Taxation – Cai Shui 2008 No. 1, dividend distributed out of the profits of PRC entities generated after 1 January 2008 shall be subject to PRC Enterprise Income Tax which is withheld by the PRC entity. Deferred tax expense of RMB9,856,000 (2008: RMB7,572,000) on the undistributed earnings of the PRC subsidiary has been charged to the profit or loss for the year.

11. INCOME TAX EXPENSE – continued

The tax charge for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2009	2008
	RMB'000	*RMB'000*
Profit before tax	**249,665**	200,910
Tax charge at income tax rate of 25%	**62,416**	50,228
Tax effect of income not taxable for tax purpose	**(91)**	–
Tax effect of expenses not deductible for tax purpose	**3,379**	6,322
Deferred tax on undistributed earnings of a PRC subsidiary *(note 24)*	**9,856**	7,572
Tax charge for the year	**75,560**	64,122

12. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

	2009	2008
	RMB'000	*RMB'000*
Profit and total comprehensive income for the year has been arrived at after charging:		
Auditor's remuneration	**1,408**	120
Directors' remuneration	**414**	111
Cost of inventories recognised as an expense	**187,711**	161,098
Depreciation of property, plant and equipment	**4,892**	4,791
Amortisation of prepaid lease payments	**92**	92
Research and development costs	**1,250**	1,180
Foreign exchange loss	**–**	57
Staff costs, including directors' remuneration		
– salaries and other benefits costs	**6,120**	4,553
– sales commission	**13,509**	11,246
– retirement benefits scheme contribution	**702**	642

13. DIRECTORS' EMOLUMENTS

Details of the emoluments paid and payable to the six (2008: three) directors of the Company was as follows:

	Salary	Retirement benefits scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*
For the year ended 31 December 2009			
Mr. Wang Guangyuan	120	7	127
Mr. Zhang Hebin	116	6	122
Ms. Wang Lijuan	111	6	117
Mr. Sih Wai Kin, Daniel	16	–	16
Mr. Li Changgao	16	–	16
Mr. Lai Chi Keung, Albert	16	–	16
	395	19	414
For the year ended 31 December 2008			
Mr. Wang Guangyuan	35	7	42
Mr. Zhang Hebin	31	6	37
Ms. Wang Lijuan	26	6	32
	92	19	111

None of the directors waived any emoluments for both years.

14. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments in the Group did not include any director of the Company for both years. The emoluments of the five highest paid individuals were as follows:

	2009	2008
	RMB'000	*RMB'000*
Performance related incentive payments	**6,056**	4,683
Retirement benefits scheme contribution	**100**	65
	6,156	4,748

Their emoluments were within the following bands:

	2009	2008
	RMB'000	*RMB'000*
Less than RMB880,000 (equivalent to HK$1,000,000)	**–**	3
RMB880,001 to RMB1,320,000 (equivalent to HK$1,000,001 to HK$1,500,000)	**2**	2
RMB1,320,001 to RMB1,760,000 (equivalent to HK$1,500,001 to HK$2,000,000)	**3**	–
	5	5

15. DIVIDENDS

	2009	2008
	RMB'000	*RMB'000*
Dividend proposed:		
Final dividend – HK2.88 cents (equivalent to RMB2.53 cents)	**43,539**	–

A final dividend of HK2.88 cents (equivalent to RMB2.53 cents) (2008: nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

No dividend has been paid or declared by the Company or its subsidiaries during the year ended 31 December 2008.

16. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	2009	2008
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to owners of the Company	**174,105**	136,788

	2009	2008
	Number of shares	*Number of shares*
Number of shares		
Weighted average number of ordinary shares	**1,367,939,326**	1,324,672,000

The weighted average number of shares for the purpose of calculating basic earnings per share for each of the two years ended 31 December 2009 and 2008 is based on the assumption that the 132,467,200 shares issued and outstanding upon the Corporate Reorganisation had been in issue as at beginning of the respective years and also has been adjusted for the 1,192,204,800 shares issued pursuant to the capitalisation issue as disclosed in note 25.

No diluted earnings per share has been presented for both years as the Company has no potential dilutive ordinary shares outstanding during both years.

17. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings	Leasehold improvements	Plant and machinery	Office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1 January 2008	–	22,998	–	77,584	107	1,172	101,861
Additions	26,700	–	–	–	–	–	26,700
At 31 December 2008	26,700	22,998	–	77,584	107	1,172	128,561
Additions	2,000	–	140	–	171	–	2,311
At 31 December 2009	28,700	22,998	140	77,584	278	1,172	130,872
DEPRECIATION							
At 1 January 2008	–	3,654	–	13,777	90	1,118	18,639
Provided for the year	–	874	–	3,912	5	–	4,791
At 31 December 2008	–	4,528	–	17,689	95	1,118	23,430
Provided for the year	–	874	70	3,909	39	–	4,892
At 31 December 2009	–	5,402	70	21,598	134	1,118	28,322
CARRYING VALUES							
At 31 December 2009	28,700	17,596	70	55,986	144	54	102,550
At 31 December 2008	26,700	18,470	–	59,895	12	54	105,131

The above items of property, plant and equipment except for construction in progress are depreciated on a straight-line basis over their estimated useful lives and after taking into account of their estimated residual value at the following rates per annum:

Buildings	4%
Leasehold improvements	50%
Plant and machinery	5% – 10%
Office equipment	20%
Motor vehicles	20%

The buildings are situated on land in the PRC and are held under long lease.

18. PREPAID LEASE PAYMENTS

	2009	2008
	RMB'000	*RMB'000*
Analysed for reporting purposes as:		
Non-current asset	**3,849**	3,941
Current asset	**92**	92
	3,941	4,033

The leasehold land is situated in the PRC and is held under long lease.

19. INVENTORIES

	2009	2008
	RMB'000	*RMB'000*
Raw materials	**3,858**	3,273
Work in progress	**133,532**	129,094
Finished goods	**11,214**	10,626
	148,604	142,993

20. TRADE RECEIVABLES

	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**98,776**	81,292

The Group allows a credit period of 90 days to its trade customers except for the new customers newly accepted which payment is made when goods are delivered. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2009	2008
	RMB'000	RMB'000
0 – 30 days	**84,960**	77,558
31 – 60 days	**13,816**	3,734
	98,776	81,292

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer.

No trade receivable balance is past due at the end of the reporting period.

21. BANK BALANCES AND CASH

Bank balances carry interest at average market rates of 0.64% (2008: 0.57%) per annum.

22. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2009	2008
	RMB'000	*RMB'000*
0 – 30 days	**4,992**	7,548
31 – 60 days	**8,779**	5,385
61 – 90 days	**2,383**	–
	16,154	12,933

The average credit period on purchase of material other than grapes is 90 days and cash on delivery on purchase of grapes.

23. OTHER PAYABLES AND ACCRUALS

	2009	2008
	RMB'000	*RMB'000*
Other tax payable	**22,455**	18,893
Accrued expenses	**5,813**	11,296
Other creditors	**10,545**	5,169
	38,813	35,358

24. DEFERRED TAX LIABILITY

	Undistributed earnings of a PRC subsidiary
	RMB'000
At 1 January 2008	–
Charge for the year *(note 11)*	7,572
At 31 December 2008	7,572
Charge for the year *(note 11)*	9,856
At 31 December 2009	17,428

25. SHARE CAPITAL

	Notes	Number of ordinary shares '000 at S$0.10 per share	Number of ordinary shares '000 at HK$0.01 per share	Amount S$'000	Amount HK$'000
Authorised:					
At date of incorporation and at 31 December 2008	(a)	200	–	20	–
Change of denomination of par value of share from Singapore dollar ("S$") S$0.10 to HK$0.01 and share split	(b)	(200)	10,720	(20)	107
Increase in authorised share capital	(c)	–	9,989,280	–	99,893
At 31 December 2009		–	10,000,000	–	100,000
Issued:					
Allotted and issued nil paid on 8 September 2008 and at 31 December 2008	(a)	100	–	10	–
Change of denomination of par value of share from S$0.10 to HK$0.01	(b)	(100)	5,360	(10)	54
Issue of shares upon the Corporate Reorganisation	(d)	–	127,107	–	1,271
Issue of shares by capitalisation of the share premium account	(e)	–	1,192,205	–	11,922
Issue of shares pursuant to initial public offering	(f)	–	393,262	–	3,933
At 31 December 2009		–	1,717,934	–	17,180
Shown in the consolidated financial statements At 31 December 2009				RMB equivalent	15,118

25. SHARE CAPITAL – continued

The following changes in the share capital of the Company took place during the period from 21 August 2008 (date of incorporation) to 31 December 2009.

(a) The Company was incorporated on 21 August 2008 with an authorised share capital of S$20,000 initially divided into 200,000 ordinary shares with a par value of S$0.10 each, of which 100,000 ordinary shares with a par value of S$0.10 each were allotted and issued nil paid by the Company to its then sole shareholder on 8 September 2008.

(b) On 5 June 2009, the then sole shareholder approved the change in the denomination of the par value of the ordinary shares in the Company from S$0.10 each to HK$0.01 each. Each of the authorised shares with a par value of S$0.1 each in the share capital of the Company was sub-divided into 54 shares with a par value of HK$0.01 each in the share capital of the Company. Accordingly, the authorised share capital of the Company became HK$107,200 comprising 10,720,000 ordinary shares of HK$0.01 each, and the issued share capital of the Company became HK$53,600 divided into 5,360,000 shares.

(c) On 28 October 2009, the authorised share capital of the Company was increased from HK$107,200 to HK$100,000,000 by the creation of the additional 9,989,280,000 shares of HK$0.01 each. These new shares rank pari passu in all respects with the existing shares.

(d) On 28 October 2009, the Company and the shareholders of Fullest Power entered into a share swap agreement (the "Share Swap Agreement"). Pursuant to the Share Swap Agreement, the Company (i) alloted and issued an aggregate of 127,107,200 ordinary shares in exchange for the entire issued share capital of Fullest Power credit as fully paid at par and (ii) the nil paid 5,360,000 credit as fully paid at par.

(e) On 28 October 2008, 1,192,204,800 shares of HK$0.01 each in the Company were allotted and issued, credited as fully paid, to the shareholders of the Company whose names appeared on the register of members at the close of business on 28 October 2009 in proportion to their respective shareholdings by the capitalisation of an amount of HK$11,922,000 standing to the credit of the share premium of the Company.

(f) On 19 November 2009 and 7 December 2009, an aggregate of 393,262,000 new ordinary shares of HK$0.01 each in the Company were issued at HK$1.25 per share for cash pursuant to initial public offering.

The share capital at 31 December 2008 as shown in the consolidated statement of financial position represents the issued share capital of Fullest Power comprising 100,000 shares of US$1 each (equivalent to RMB758,000), the then holding company of the Group.

26. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution in writing passed by all the shareholders of the Company on 28 October 2009 for the primary purpose of providing incentives to directors, eligible employees and any selected participants, and will expire for a period of 10 years commencing on the date which the Scheme is adopted. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 21 days of the date of the offer grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the directors of the Company but in any event not exceeding 10 years. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a share.

No option has been granted or agreed to be granted under the Scheme since its adoption.

27. CONTINGENT LIABILITIES

Prior to October 2008, Cabernet Sauvignon wine products were produced by the Company's wholly owned subsidiary incorporated at the PRC under the label of "通天解百納" in Chinese.

On 14 April 2002, Yantai Changyu Pioneer Wine Company Limited ("Yantai Changyu") registered the trademark for the Chinese characters for Cabernet Sauvignon wine products, "解百納" with the Trademark Bureau of the State Administration for Industry and Commerce ("SAIC") ("Trademark Bureau") (the "Registration"). The Registration was subsequently revoked by the Trademark Bureau on application by several wine producers in the PRC against the Registration (the "Withdrawal Ruling").

On 23 June 2008, the Yantai Changyu group of companies successfully appealed against the Withdrawal Ruling, which was then revoked by the Trademark Appeal Board of the SAIC.

27. CONTINGENT LIABILITIES – continued

On 27 June 2008, several wine producers in the PRC brought the matter to the Beijing Municipal First Middle Level People's Court seeking a judicial review of both the Registration as well as the revocation of the Withdrawal Ruling. As at the date these financial statements are authorised for issue, the matter has not been resolved. Should the Registration eventually be conclusively upheld by the PRC courts, other wine producers in the PRC will not be allowed to use the Chinese characters for Cabernet Sauvignon wine products, "解百納", as part of their product labels. In addition, if the Registration is deemed by the PRC courts to have been continuously effective from 14 April 2002 until such date as the Registration is conclusively upheld (the "Period of Alleged Infringement"), the Yantai Changyu group of companies would likely be able to successfully bring legal proceedings for trademark infringement against other PRC wine producers which had used "解百納" in their product labels during the Period of Alleged Infringement.

The Group ceased the sale of its Cabernet Sauvignon products under the "通天解百納" name in October 2008, and commenced repackaging its Cabernet Sauvignon wine products using a different label in Chinese characters. Should the Yantai Changyu group of companies commence legal proceedings against the Group for trademark infringement during the Period of Alleged Infringement and the defence against such legal proceedings is unsuccessful, the damages which may be awarded by the PRC courts under the relevant PRC laws for trademark infringement may be in the form of repatriation of profits earned by the subsidiary incorporated in PRC through the sale of "解百納" labelled wine products, or the losses suffered by the Changyu Group as a result of Group's infringement during the Period of Alleged Infringement (including any reasonable costs incurred by the Yantai Changyu group to stop such infringement). The management is of the opinion that the profit earned or losses incurred cannot be determined and hence the amount of damages shall be not more than RMB500,000.

28. OPERATING LEASES

The Group as lessee

	2009	2008
	RMB'000	*RMB'000*
Minimum lease payments paid under leases during the year:		
Plant and machinery	**2,010**	2,010
Premises for office and warehouse	**745**	395
	2,755	2,405

28. OPERATING LEASES – continued

At 31 December 2009, the Group had commitment for minimum lease payment under non-cancellable operating leases which fall due as follows:

	2009 RMB'000	2008 RMB'000
Plant and machinery		
Within one year	**45**	1,894
In the second to fifth year inclusive	**113**	1,522
	158	3,416
Rented premises for office and warehouse		
Within one year	**889**	251
In the second to fifth year inclusive	**695**	–
	1,584	251

Operating lease payments represent rentals paid or payable by the Group for certain of its office premises and plant and machinery.

29. CAPITAL COMMITMENTS

	2009 RMB'000	2008 RMB'000
Capital expenditure in respect of construction of new plant contracted for but not provided in the consolidated financial statements	**21,355**	21,355
Capital expenditure in respect of expansion of production capacity, development of wine estate and wine cellar authorised but not contracted for	**178,601**	–

30. RETIREMENT BENEFITS PLANS

The employees of the Company's subsidiary established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. The subsidiary is required to contribute certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specific contributions.

The Group made contributions to the retirement benefits schemes of RMB702,000 (2008: RMB642,000).

31. RELATED PARTIES TRANSACTIONS

Compensation of key management personnel

The remuneration of directors and other members of senior management during the year was as follows:

	2009	2008
	RMB'000	*RMB'000*
Short-term benefits	**2,652**	144
Post-employment benefits	**33**	30
	2,685	174

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

32. COMPANY'S STATEMENT OF FINANCIAL POSITION

	RMB'000
ASSETS AND LIABILITIES	
Total assets	483,338
Total liabilities	2,477
	480,861
CAPITAL AND RESERVES	
Share capital	15,118
Reserves	465,743
	480,861

33. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activity
Fullest Power	The British Virgin Islands 19 May 2006	Ordinary shares US$100,000	100%	–	Investment holding
Rich Treasure Link Limited	Hong Kong 18 July 2008	Ordinary shares HK$10,000	–	100%	Investment holding
通化通天酒業有限公司 Tonghua Tongtian Winery Co., Ltd ("Tonghua Tongtian") *(note)*	PRC 9 January 2001	Registered capital RMB87,110,000	–	100%	Wine, beverage production, grape juice processing

Note: Tonghua Tongtian is a wholly-foreign owned enterprise established in the PRC.